

## Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ADP-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08 CEA-02

DODE-00 PM-07 H-02 L-03 PA-03 PRS-01 USIA-12 AGR-20

INT-08 TAR-02 RSR-01 /193 W

----- 055576

R 111901Z JUL 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6240

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY BRUSSELS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY BERN

AMEMBASSY VIENNA

UNCLAS SECTION 01 OF 02 BONN 09924

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E. O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: POEHL ON MONETARY SITUATION

1. SUMMARY: IN AN INFORMAL BRIEFING OF JOURNALISTS FINANCE MINISTRY STATE SECRETARY POEHL, ACCORDING TO DPA, INDICATED THAT THE FRG IS CONFIDENT CONCERNING A FURTHER STRENGTHENING OF THE DOLLAR AND WELCOMES INCREASED DIRECT INVESTMENT IN THE US BY GERMAN FIRMS. POEHL NOTED THAT IN CONNECTION WITH THE GRANTING OF SWAP CREDITS THE US HAD RECOGNIZED ITS OBLIGATION TO SUPPORT THE DOLLAR EXCHANGE RATE. HE STRESSED THE IMPORTANCE OF BLOC FLOATING IN THE SNAKE

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FOR THE FRG AND INDICATED THAT IT WAS OF GREAT

IMPORTANCE THAT THIS SYSTEM (I.E., THE SNAKE) BE MAINTAINED. POEHL INDICATED THAT WHILE THE FRG FAVORS FIXED PARITIES, HE SAW NO CHANCE OF A RETURN TO THEM IN THE IMMEDIATE FUTURE. HE DID NOT EXPECT THAT THE NAIROBI IMF MEETING WOULD ALREADY BE IN A POSITION TO REACH AN AGREEMENT CONCERNING THE REFORMED INTERNATIONAL MONETARY SYSTEM. END SUMMARY

2. FINANCE MINISTRY STATE SECRETARY POEHL ON JULY 10 MET WITH JOURNALISTS FOR AN INFORMAL DISCUSSION OF THE INTERNATIONAL MONETARY SITUATION. THERE FOLLOWS AN INFORMAL EMBASSY TRANSLATION OF THE DPA REPORT RESULTING FROM THIS MEETING.

3. ACCORDING TO DPA POEHL INDICATED THAT THE FEDERAL GOVERNMENT IS CONFIDENT THAT THE EXCHANGE RATE OF THE AMERICAN CURRENCY WILL CONTINUE TO STRENGTHEN IN THE NEAR TERM. ALL DATA POINTS IN THE DIRECTION OF AN IMPROVEMENT OF THE AMERICAN BALANCE OF PAYMENTS. IN ADDITION POEHL EXPECTS A REVERSAL OF CAPITAL FLOWS. NOT ONLY SHORT-TERM CAPITAL FLOWS WERE BEGINNING TO MOVE TOWARD THE US, POEHL ALSO IS VERY OPTIMISTIC CONCERNING DIRECT INVESTMENTS BY GERMAN FIRMS IN THE US.

4. ACCORDING TO DPA POEHL INDICATED THAT THE FEDERAL GOVERNMENT WOULD WELCOME AND ENCOURAGE STEPS BY GERMAN BUSINESS TO CREATE PRODUCTION FACILITIES OR PARTICIPATIONS IN THE US. NEVERTHELESS, THE FEDERAL GOVERNMENT CONTINUED TO CONSIDER IT OF URGENT IMPORTANCE THAT THE AMERICAN GOVERNMENT IN ITS INTERNAL ECONOMIC POLICIES SHOULD DO STILL MORE THAN UNTIL NOW FOR THE EQUALIZATION OF ITS BALANCE OF PAYMENTS.

5. POEHL INDICATED THAT THE CREDITS MADE AVAILABLE TO THE US FOR SUPPORTING THE DOLLAR HAVE NOT YET BEEN CALLED UPON. THE BUNDES BANK HAS INTERVENED DURING THE LAST DAYS IN ONLY SMALL AMOUNTS. POEHL NOTED THAT IN CONNECTION WITH THE GRANTING OF UNCLASSIFIED

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SWAP CREDITS THE US HAD RECOGNIZED ITS OBLIGATION TO SUPPORT THE DOLLAR EXCHANGE RATE.

6. ACCORDING TO POEHL THE SYSTEM OF BLOC FLOATING OF THE EUROPEANS HAS BEEN REMARKABLY SUCCESSFUL DURING THE LAST WEEKS IN PART DUE TO THE REVALUATION OF THE DM. THE FEDERAL REPUBLIC HAD EMERGED IN THE LAST WEEKS WITHOUT ANY DAMAGE

FROM THE SERIOUS CRISIS OF THE DOLLAR. THE FEDERAL REPUBLIC AS WELL AS THE OTHER PARTNERS IN THE SNAKE HAVE A STRONG INTEREST TO MAINTAIN THIS SYSTEM (OF BLOC FLOATING). THIS INTEREST IS FOUNDED NOT ONLY ON POLITICAL CONSIDERATIONS, BUT ALSO ON STRONG ECONOMIC REASONS. FIFTY PERCENT OF GERMAN EXPORTS CAN (WITHIN THE BLOC) BE UNDER-TAKEN WITH FIXED PARITIES. THIS IS IMPORTANT IN VIEW OF THE FANTASTIC REVALUATION RATE OF THE DM VIS A VIS THE DOLLAR. SINCE THE MIDDLE OF

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1969 THE DM HAS BEEN REVALUED VIS A VIS THE DOLLAR

BY ABOUT 70 PERCENT. SINCE DECEMBER 1971 THE DM HAS INCREASED IN VALUE VIS A VIS THE REST OF THE WORLD BY AN AVERAGE OF 23 PERCENT. EVEN IF THE REVALUATION AT THE MOMENT DOES NOT SEEM TO MAKE AN IMPRESSION ON GERMAN EXPORTS, THE DANGER NEVERTHELESS EXISTS THAT THIS REVALUATION RATE CAN TURN OUT TO BE TOO HIGH IN CASE OF A GENERAL SLOWING DOWN OF BUSINESS CYCLE CONDITIONS IN THE WORLD. FOR THIS REASON IT IS NECESSARY TO PRESERVE THE SYSTEM OF BLOC FLOATING.

7. CONCERNING THE REFORM OF THE INTERNATIONAL MONETARY SYSTEM, DPA QUOTES POEHL AS INDICATING THAT THE FEDERAL GOVERNMENT, TOO, FAVORED A SYSTEM  
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WITH FIXED PARITIES. HE, POEHL, HOWEVER SAW NO POSSIBILITY FOR (SUCH FIXED PARITIES) IN THE FORESEEABLE FUTURE. FIRST IT WOULD BE NECESSARY TO DETERMINE HOW THE DOLLAR SHOULD BE VALUED. POEHL CONTINUED THAT THE MOST IMPORTANT INDUSTRIAL COUNTRIES WERE AGREED ON THE MAIN PRINCIPLES OF A REFORMED INTERNATIONAL MONETARY SYSTEM. HE DID NOT FORESEE, HOWEVER, THAT IT WOULD BE POSSIBLE TO REACH AN AGREEMENT CONCERNING THE NEW SYSTEM DURING THE WORLD MONETARY CONFERENCE IN NAIROBI AT THE END OF SEPTEMBER OF THIS YEAR. HE INDICATED THAT THE FINANCE MINISTERS OF THE C-20 WOULD MEET IN WASHINGTON AT THE END OF JULY TO CONDUCT PREPARATORY TALKS CONCERNING THE NAIROBI CONFERENCE.  
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